SCM DIRECT
The Investment Family

Closet Indexation

The UK Epidemic Continues



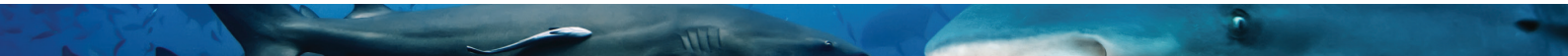
February 2015

OUR MARK OF TRUE FAIR COMMITMENT ©

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The UK fund management industry closet indexing epidemic continues to be ignored by the regulator and condoned by industry trade bodies. With no sign of action to eradicate this deception, which amounts to fraud, the British public should consider legal action against UK fund groups.

- **New research by SCM Direct finds the 10 worst offending UK funds cost investors £346m in terms of under-performance when compared to similar index funds during 2014 alone**
- **More than a third of the UK funds (36%) are no more than expensive copies of index funds**
- **Rolled out across the retail industry, based on these worst 10, this wide spread deceptive practice could have cost investors £803m in 2014**
- **Rather than the purported charge of c. 1.5 - 1.6% pa, the real cost of the genuinely active part of the fund was over 7% pa in the worst two cases**
- **The average 'implied' annual management cost (AMC) of the active part of a UK equities fund was 2.5% pa on average rather than 1.5% pa**
- **The FCA Chief Executive has been aware of this anti-consumer practice since at least September 2012, but there is no evidence that the FCA has properly investigated these contemptible practices**
- **In sharp contrast, the Dutch regulator has taken action**
- **Investors in Europe (Sweden) are undertaking class actions where similar closet indexing practices have been found**
- **SCM Direct is offering its services, as an expert witness, on a pro-bono basis, to investors wishing to pursue any class action against a UK based investment group due to losses arising from closet indexation.**



Background

For decades the UK fund management industry has been promoting and selling active funds purporting to beat the market, known as the index, and charging significant fees based on this objective.

Whilst it is fairly common knowledge that some funds are truly doing as they purport and some are not, this updated research of the Closet Indexing Report SCM produced in September 2013 has found that of the funds analysed, an average 36% of active funds are guilty of cloning the index.

SCM Direct's analysis is one of the most comprehensive undertaken, covering £137b of UK funds.

If UK investors had chosen a low cost index fund over the most serious closet indexers analysed (the 10 worst), they could have saved an estimated £346m in UK equities funds in 2014, and an estimated £457m within other retail equities funds, amounting to £803m overall.

The conundrum as to whether or not investors should be paying a full active fee if, for example, only 35% of the fund they are invested in is actually different to the index, was summarised by one of the original inventors of 'active share'[1] as:

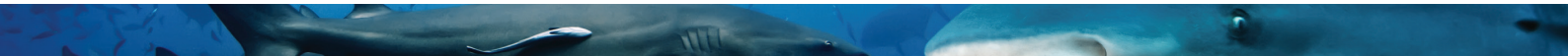
'The problem is that closet indexers are very expensive relative to what they offer. A closet indexer charges active management fees on all the assets in the mutual fund, even when some of the assets are simply invested in the benchmark index. If a fund has an Active Share of 33%, this means that fund-level annual expenses of 1.5% amount to 4.5% as a fraction of the active positions of the fund. Since only the active positions of the fund can possibly outperform the benchmark, ***in the long run it is very difficult for a closet indexer to overcome such fees and beat its index net of all expenses.'***

This new study reveals that more than a third (36%) of UK Equities funds analysed were shown to be closet index trackers, according to the academic definition[2]. When you consider these funds purport to 'beat the market', **the result of high charges and low real difference to the market make this claim almost statistically impossible to achieve.** In fact when one calculates the implied cost of the minority part of the fund that was actually different to the market for the two worst offenders - the Halifax UK Growth Fund and the Scottish Widows UK Growth Fund - this implies the fee for the truly active part of these funds was over 7% pa.

These latest research findings of SCM Direct confirms its previous findings in 2013, namely that UK investors appear to have been mis-sold on a grand scale and that the UK regulator can no longer turn a complete blind eye. The fact that 36% of UK retail funds have been sold to investors under false pretences not only breaches the Financial Conduct Authority's (FCA) over-riding principles for fund management companies that *'firms must conduct their business with integrity, and communicate information in a way that is clear, fair and not misleading'*, it is also nothing short of fraudulent.

[1] Active Share and Mutual Fund Performance Antti Petajisto December 15, 2010

[2] H. K. J. Martijn Cremers and Antti Petajisto, "How Active Is Your Fund Manager? A New Measure That Predicts Performance, Working Paper, Yale School of Management, March 31, 2009. They define potential 'closet indexers' as those funds with 60% or less active share



Shockingly, SCM Direct found that in 2014 every single one of the 10 funds with the lowest active share analysed i.e. greatest degree of closet indexation, underperformed the market by an averge of 2.8%. Had the investors in these 10 funds, totaling £136b under management, been aware that their fund was a closet tracker, they might have chosen a low cost index fund instead, and saved £346m in these UK equity funds alone, and an estimated £803m in funds including overseas equity funds based on the same levels of closet indexation.

It is surprising that the Serious Fraud Office (SFO) does not step in since this seems to suggest wide scale fraud.

In sharp contrast to the UK regulator, the Danish regulator investigated closet indexation in September 2014 and found that 56 of their 188 active equity mutual funds were not really active. Similarly the European Regulator, the European Securities and Markets Authority (ESMA), announced in October 2014 that it might take action against offenders and entered into discussions with the 28 national regulators, including the FCA, to assess whether closet tracking is a bigger problem at a single country level or is a Europe-wide concern[3].

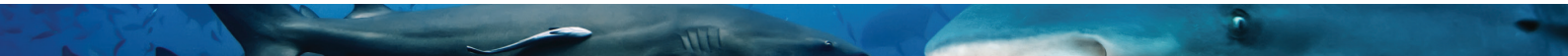
There has been a shameful lack of investigation into closet index tracking in the UK although the FCA Chief Executive, Martin Wheatley, said in September 2012 *"Should I be concerned if the tracker fund I invest in is lending shares to short sellers, or that the managed fund I buy charges five times as much as that same tracker, but its holdings seem to be broadly the same?"*[4] It seems that until the FCA was recently contacted by ESMA, they have chosen to turn a blind eye to the contemptible practice of closet indexation.

The UK's Financial Services Consumer Panel (FSCP), an influential body that advises the FCA on consumer protection, said in its 2014 report on investment costs and charges that *'Frequent monitoring of short-term performance combined with inadequate scrutiny of costs encourages the practice of "closet indexation", also known as "closet tracking": funds that charge for active portfolio management, typically of company stocks, but which in practice do little more than mimic the composition of a relevant index....To help consumers and their representatives assess value for money, the regulator could usefully consider a requirement for fund managers to justify that their management of index constituents was active management, rather than closet index tracking. This would probably require trading disclosure for active managers, that is, to disclose what proportion of their trading was on index constituents."*[5]

The authors of this report find it simply astonishing that the FCA chose to ignore completely their September 2013 SCM report on closet indexation.[6] It is even more astonishing when European regulators are taking this issue seriously with class actions against fund groups now starting. The Swedish Shareholders' Association – the largest network of retail investors in the world – has seen more than 2,000 people sign up to a class action in 2014 against one of Scandinavia's largest mutual fund managers for alleged closet indexing.

SCM believes that the only way to protect UK investors, and curtail closet indexing, is for a similar class action to take place in the UK and is prepared to offer their services as expert witnesses, on a pro-bono basis, to any law firm/ investors wanting to commence such an action against any of the large UK fund managers.

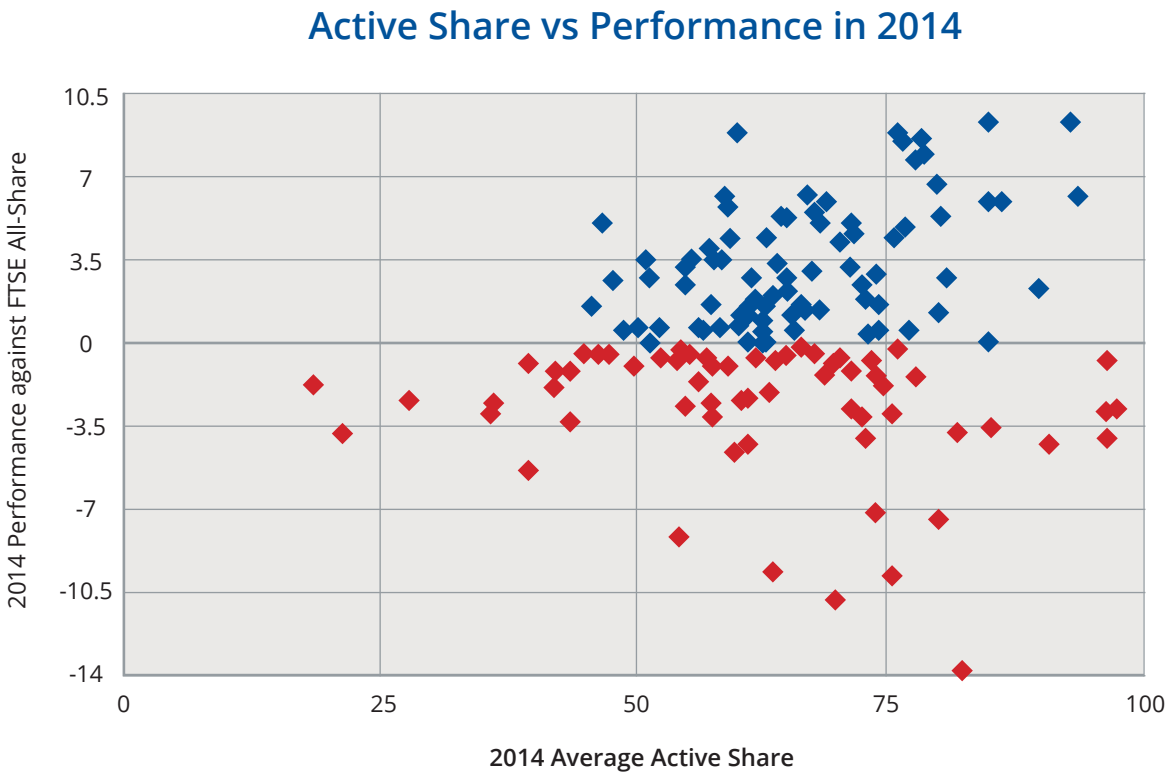
[3] http://europe.etf.com/europe/features-a-news/10372-esma-on-the-hunt-for-closet-trackers.html
[4] Speech by FCA CEO, Martin Wheatley http://www.fsa.gov.uk/library/communication/speeches/2012/0925-mw.shtml
[5] http://www.fs-cp.org.uk/publications/pdf/investment_discussion_paper_investment_cost_and_charges.pdf
[6] http://www.scmprivate.com/content/file/knowledge/research/closet-indexation-report-full-sept-13.pdf



Like many of the other inexcusable anti-consumer practices ongoing within the UK fund industry, closet index tracking is condoned and openly ridiculed by the current Chief Executive of the Investment Association, Mr Godfrey, who said in a 2013 BBC Radio 4 Moneybox interview that it was OK if say 95% matched the index, as long as the other 5% was a *'bet on the 3.30 at Ascot.'*[7] He has also falsely claimed that investors should be able to spot such closet index trackers as *"The data is available for people to see how clearly a fund replicates its composition index and draw their own conclusions."*[8] This is a typically and wholly misleading statement by the Investment Association since:

a) most funds do not publish their active share at all and
b) investors do not have sight of the full list of holdings more than once a year. **The situation is in sharp contrast to the USA, where US funds have been required to show portfolio holdings quarterly via the internet, since 2004.**[9]

Contrary to recent studies, there is no overwhelming evidence that having a large amount of a fund different to the market will somehow guarantee outperformance; although it does however give investors the chance of beating the market. In contrast, the evidence is overwhelming that funds with very low active share simply cannot beat the market once their fees are factored in. It is evident that many of these funds are therefore defrauding the British public by making almost impossible claims.



[7] BBC Money Box interview with IMA CEO, Mr. Godfrey http://www.bbc.co.uk/programmes/b03bd244
[8] http://www.betterfinance.eu/fileadmin/user_upload/documents/Press_Releases/en/_Closet_index_trackers__must_be_outed__regulators_urged_-_Financial_News.pdf
[9] SEC Adopts Enhanced Mutual Fund Expense and Portfolio Disclosure; Proposes Improved Disclosure of Board Approval of Investment Advisory Contracts and Prohibition on the Use of Brokerage Commissions to Finance Distribution, *Washington, D.C. Feb. 11, 2004*

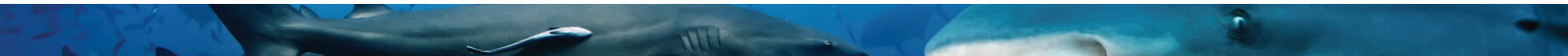
Conclusion

This report illustrates that precious little has changed since our original report into Closet Indexing in September 2013. In view of the inexcusable inactivity around promoting higher standards of disclosure and transparency of holdings, SCM Direct urges mis-sold investors to consider taking class actions to recover the millions stolen. **To assist investors, SCM Direct is offering to act as an expert witness in any such proceeding free of charge.**

Through its True and Fair Campaign, SCM Direct has been tirelessly campaigning for 100% transparency of holdings since January 2012. We believe the FCA should be working towards 100% transparency of fund holdings, and mandate that fund factsheets include Active Share. This would afford UK investors significantly higher levels of protection by exposing and shaming deceptive closet index trackers.

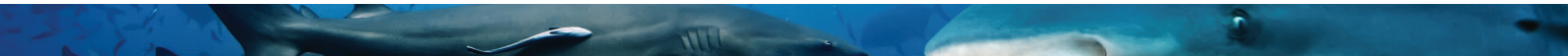
The FCA should mandate the following:

1. **Funds to reveal 100% of their holdings on-line at least quarterly (the US rule since 2004).**
2. **Any fund closely resembling an index fund should clearly state this within their marketing materials.**
3. **Funds should be forced to disclose their Active Share on their factsheets.**
4. **Fees should more fairly reflect the Active Share within a fund.**



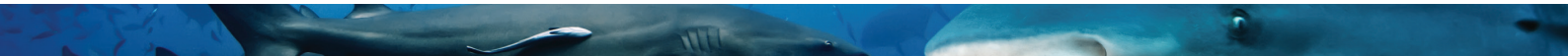
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Halifax UK Growth C	18.5%	11.9%	1.50	8.1%	£5,103,636,317	-0.7	-£80,529,767
Scottish Widows UK Growth A	21.4%	33.4%	1.61	7.5%	£2,840,284,397	-2.6	-£99,052,078
Santander PF UK Equity A	27.6%	26.5%	1.02	3.7%	£522,599,901	-1.3	-£11,540,783
Halifax UK Equity Income C	35.9%	41.0%	1.50	4.2%	£2,719,836,056	-1.7	-£70,932,508
Scottish Widows UK Equity Income A Acc	36.2%	44.1%	1.36	3.8%	£690,389,116	-1.4	-£15,476,453
Marks & Spencer UK Selection Inc	39.5%	36.9%	1.62	4.1%	£123,879,015	0.3	-£785,418
Santander UK Growth Acc	39.5%	32.6%	1.26	3.2%	£920,021,852	-4.2	-£46,755,327
NFU Mutual UK Growth A	39.6%	32.6%	1.29	3.3%	£345,193,102	-4.2	-£17,414,094
JPM UK Strategic Equity Inc A Acc	42.2%	44.1%	1.68	4.0%	£134,390,052	-0.7	-£2,120,984
AXA General Acc	42.4%		1.03	2.4%	£208,908,132	0.0	-£1,859,282
Barclays UK Core A Inc	43.6%	39.6%	1.71	3.9%	£366,881,095	-2.0	-£10,750,093
L&G UK Select Equity A Acc	43.8%		1.67	3.8%	£458,695,201	0.0	-£4,247,976
SWIP MM UK Equity Growth A Acc	45.0%	44.3%	1.82	4.0%	£246,309,666	0.7	-£469,713
Insight Equity Income £ Inc	45.8%		1.63	3.6%	£228,605,778	2.6	
JPM UK Dynamic A Acc	46.5%	54.2%	1.68	3.6%	£146,963,314	0.7	-£299,996
Franklin UK Equity Income A Inc	46.8%		1.60	3.4%	£162,936,544	6.1	
JPM UK Higher Inc A Inc	47.4%	32.7%	1.68	3.5%	£292,780,416	0.6	-£705,484
CIS UK Income and Growth Trust Inc	48.0%		1.54	3.2%	£421,209,040	3.7	
Royal London UK Equity A	48.8%	47.7%	1.29	2.6%	£484,938,948	1.7	
River & Mercantile UK Equity Income A	50.0%		1.71	3.4%	£235,820,412	0.2	-£1,657,039
BlackRock UK Equity A Acc	50.6%	43.9%	0.52	1.0%	£635,818,149	1.8	
SWIP MM UK Equity Income A Acc	51.3%	50.7%	1.80	3.5%	£1,598,421,386	4.5	
Barclays UK Equity Income A Inc	51.4%	51.1%	1.76	3.4%	£225,368,954	3.9	
Barclays UK Equity Income S2 A Inc	51.5%	59.7%	1.73	3.4%	£243,327,363	3.8	
JPM UK Strategic Growth A Acc	51.7%		1.68	3.3%	£192,343,123	1.2	
Barclays UK Alpha A Dist	52.6%	50.9%	1.69	3.2%	£667,406,339	1.8	



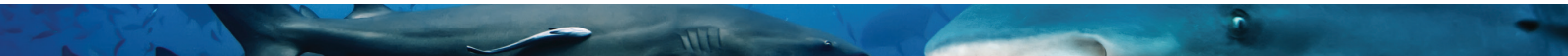
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Schroder Prime UK Equity I Acc	52.6%		0.51	1.0%	£402,624,671	0.6	-£1,311,872
HSBC Income Retail Income	54.5%	40.2%	1.65	3.0%	£237,612,435	0.5	-£888,148
Schroder Core UK Equity A Acc	54.5%		1.41	2.6%	£249,792,643	-7.0	-£19,704,993
Milton Income Acc	54.9%		1.68	3.1%	£221,920,706	4.3	
AXA Framlington UK Growth R GBP Acc	55.0%	62.4%	1.59	2.9%	£269,834,746	0.8	-£252,295
Schroder UK Alpha Plus Acc	55.0%	70.8%	1.65	3.0%	£1,423,699,774	-1.5	-£34,121,812
Artemis Income Inc	55.0%	55.8%	1.54	2.8%	£7,009,185,694	3.5	
CIS UK Growth	55.6%	53.9%	1.53	2.8%	£1,196,199,882	0.7	-£2,218,233
HSBC UK Growth & Income Retail Inc	55.6%	35.7%	1.64	2.9%	£923,656,166	0.7	-£1,567,537
Old Mutual Artemis Income A Inc	55.7%		1.54	2.8%	£131,437,979	4.5	
BlackRock UK A Inc	56.4%	50.3%	1.67	3.0%	£699,341,540	-0.4	-£8,942,760
HSBC Freestyle Retail Inc	56.4%	63.6%	1.65	2.9%	£152,616,298	-0.6	-£2,222,490
Schroder UK Equity Acc	56.4%	51.2%	1.66	2.9%	£635,218,811	1.8	
Aviva Investors UK Opportunities 1	56.9%	65.4%	1.53	2.7%	£170,592,100	1.7	
St James's Place UK Growth Acc	57.3%	75.2%	2.13	3.7%	£311,213,240	0.5	-£1,195,744
Threadneedle UK Select Ret Net GBX	57.5%	52.9%	1.70	3.0%	£201,025,693	5.0	
SWIP MM UK Equity Focus A Acc	57.6%	54.6%	1.81	3.1%	£1,368,457,460	-1.4	-£31,339,181
River & Mercantile UK Eq Hi Alpha A	57.6%	55.7%	1.59	2.8%	£363,976,613	-1.8	-£9,904,313
Aberdeen UK Equity Income A Inc	57.6%	54.5%	1.61	2.8%	£153,701,725	-1.5	-£3,725,976
Threadneedle UK Fund Retail	57.6%	52.6%	1.68	2.9%	£2,344,129,617	2.8	
Santander Equity Income	57.7%	49.6%	1.28	2.2%	£161,997,586	4.8	
HSBC UK Focus R Inc	57.8%	60.7%	1.02	1.8%	£206,335,904	0.2	-£1,416,950
Majedie UK Equity A Acc	58.4%	52.8%	1.53	2.6%	£3,115,191,224	1.8	
Old Mutual UK Equity Income Acc	58.5%		1.65	2.8%	£164,100,001	4.7	
BlackRock UK Income A Inc	59.2%	58.5%	1.67	2.8%	£341,947,083	7.2	



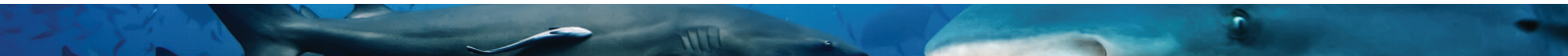
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Jupiter Growth & Income	59.2%	55.0%	1.76	3.0%	£305,196,173	0.1	-£2,263,335
Fidelity MoneyBuilder Dividend	59.3%	59.8%	1.20	2.0%	£1,036,894,830	6.9	
Threadneedle UK Monthly Inc RN GBP	59.5%	51.1%	1.62	2.7%	£642,792,658	5.5	
L&G UK Equity Income R Acc	59.9%		1.68	2.8%	£540,207,022	-3.4	-£23,223,122
Troy Trojan Income O Acc	60.2%	60.1%	1.03	1.7%	£2,025,577,447	10.0	
Fidelity MoneyBuilder Growth	60.3%	54.3%	1.20	2.0%	£685,775,281	1.9	
Old Mutual UK Equity Acc	60.5%	61.0%	1.65	2.7%	£485,360,000	2.3	
Investec UK Special Situations A Acc Net	60.7%	56.3%	1.59	2.6%	£1,387,315,746	-1.2	
Ignis Balanced Growth Inc	61.1%	50.8%	1.59	2.6%	£127,055,238	-1.2	
Aberdeen UK Equity A Inc	61.1%	55.1%	1.60	2.6%	£179,700,506	-3.1	
Schroder UK Alpha Income A Inc	61.1%		1.66	2.7%	£694,055,095	1.2	
Neptune Income A Acc	61.2%	62.5%	1.66	2.7%	£334,425,112	1.2	
Royal London UK Growth Fund A	61.3%	55.6%	1.29	2.1%	£466,733,850	2.3	
Aviva Investors UK Equity Income SC1	61.3%		1.00	1.6%	£944,075,500	2.7	
F&C Responsible UK Equity Growth 1 Inc	61.5%	68.5%	1.60	2.6%	£379,936,509	3.8	
CF Canlife UK Equity Income B Inc GBP	62.0%		1.16	1.9%	£108,618,227	3.0	
Aviva Investors UK Equity SC1	62.2%		1.00	1.6%	£262,584,799	0.5	
M&G UK Growth A Acc	62.7%	45.9%	1.67	2.7%	£763,062,670	1.6	
Old Mutual UK Alpha R Acc	62.7%	67.9%	0.90	1.4%	£1,881,207,466	1.2	
RBS Growth 1	62.9%		1.28	2.0%	£195,564,553	2.5	
Threadneedle UK Overseas Earnings IN Inc	63.0%	59.3%	1.57	2.5%	£115,843,459	2.1	
Newton Higher Income GBP	63.1%	58.2%	1.61	2.6%	£1,938,290,471	5.5	
JOHCM UK Dynamic B Acc	63.1%	54.2%	1.48	2.3%	£295,892,228	2.7	
Schroder Specialist Value UK Eq I Acc	63.4%	61.7%	0.76	1.2%	£119,615,487	-0.9	
St James's Place Allshare Income Inc	63.4%		1.82	2.9%	£1,178,918,384	1.0	
Halifax Special Situations C	63.7%	49.1%	1.51	2.4%	£168,528,328	-8.5	



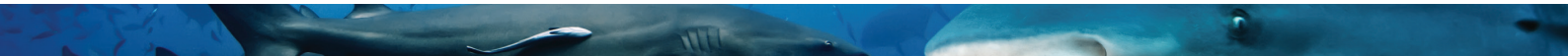
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Jupiter Income Trust	63.8%	57.5%	1.70	2.7%	£2,014,350,249	3.1	
M&G Dividend A Inc	63.8%	51.3%	1.66	2.6%	£624,706,185	0.5	
Ignis UK Equity Income Inc	64.3%		1.63	2.5%	£118,708,799	4.5	
AXA Framlington Monthly Income R GBP Inc	64.4%		1.62	2.5%	£140,658,961	6.5	
AXA Framlington Equity Income GBP R Inc	64.4%	64.7%	1.61	2.5%	£134,607,748	0.5	
Royal London UK Equity Income A	64.9%	62.2%	1.28	2.0%	£1,607,192,916	6.3	
IP Income & Growth Inc	65.0%	57.9%	1.67	2.6%	£576,395,398	3.9	
JOHCM UK Equity income B GBP Inc	65.0%	64.8%	1.29	2.0%	£2,707,924,511	0.7	
CIS Sustainable Leaders	65.1%	69.6%	1.53	2.45	£406,261,457	3.3	
F&C Responsible UK Income 1 Inc	65.6%	71.3%	1.58	2.4%	£330,476,639	2.4	
Premier Income A	65.9%	62.4%	1.63	2.5%	£397,897,173	1.7	
JOHCM UK Opportunities B GBP Acc	66.3%	67.6%	1.32	2.0%	£1,397,808,328	2.7	
Liontrust UK Growth R Inc	66.5%	66.7%	1.65	2.5%	£230,872,727	1.0	
Premier Monthly Income A	66.6%	65.0%	1.68	2.5%	£195,066,947	2.5	
Majedie UK Focus A	66.9%	64.1%	2.03	3.0%	£537,870,461	7.3	
Schroder Income Maximiser A Acc	67.2%	70.2%	1.66	2.5%	£1,200,849,609	2.6	
Schroder Income Acc	67.4%	70.8%	1.66	2.5%	£1,626,084,715	4.1	
Henderson Global Care UK Income A	67.6%		1.76	2.6%	£136,199,015	6.7	
St James's Place Equity Income Inc	68.0%	73.8%	1.64	2.4%	£1,936,950,627	0.6	
Henderson UK Alpha A	68.4%	78.5%	1.74	2.5%	£421,416,095	2.5	
Rathbone Income R Inc	68.6%	69.3%	1.55	2.3%	£1,037,322,235	6.1	
IP Children´s	68.7%	68.1%	1.72	2.5%	£217,399,767	-0.1	
Fidelity UK Select	68.8%	60.7%	1.71	2.5%	£296,937,431	7.0	
M&G Recovery A Inc	69.7%	65.3%	1.65	2.4%	£4,994,410,398	-9.6	
IP UK Growth Acc	69.8%	69.4%	1.66	2.4%	£1,240,682,568	0.3	
JOHCM UK Growth B GBP	70.2%	70.6%	1.33	1.9%	£434,115,126	5.3	



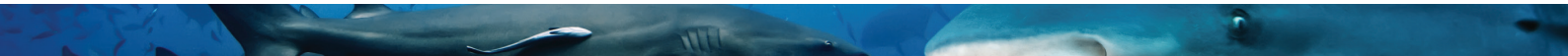
Full Analysis

Group/Investment	2014 Average Active Share (ie. amount different to the market)	Average Active Share over 5 years to end June 2013 (as per last SCM report)	KIID Ongoing Charge (Primary Share Class)	Implied Cost of 'active' part of fund	Fund Size	Annual Return in 2014 (UK market was +1.2%)	Cost of under-performance vs an index fund during 2014 (index fund return of +0.89% assumed). Only those with <60% Active Share (academic definition of closet index fund) shown
Royal London UK Opportunities	70.4%	66.9%	1.42	2.0%	£570,809,494	0.5	
Fidelity Enhanced Income Inc	71.3%		1.72	2.4%	£296,751,242	4.3	
Threadneedle UK Eq Income (ex LV) Retl	71.4%		1.08	1.5%	£285,562,279	6.2	
AXA Framlington UK Select Opps R Acc	71.4%	69.6%	1.58	2.2%	£4,553,547,355	0.0	
Threadneedle UK Eq Inc Ret Net GBP	71.5%	61.7%	1.62	2.3%	£3,223,496,637	5.7	
Fidelity Special Situations	71.5%	72.0%	1.69	2.4%	£2,683,951,907	-1.7	
Threadneedle UK Gr & Inc Ret Net GBP	72.4%	60.6%	1.63	2.3%	£304,088,012	3.5	
L&G Growth E Distr	72.5%	75.6%	1.68	2.3%	£138,093,900	-2.0	
IP UK Aggressive Acc	72.8%	72.3%	1.67	2.3%	£243,989,900	-2.9	
CF Canlife UK Equity B Acc	72.9%		1.04	1.4%	£561,529,777	3.0	
Ecclesiastical Amity UK A	73.3%	74.7%	1.61	2.2%	£128,480,863	1.5	
Ecclesiastical UK Equity Growth A	73.4%	65.0%	1.59	2.2%	£186,057,219	0.4	
River & Mercantile UK Eq L/T Rec B	73.7%	77.9%	1.24	1.7%	£108,363,821	-6.0	
Henderson UK Equity Inc & Gr A	73.9%		1.75	2.4%	£583,239,387	-0.2	
Premier UK Growth A Net Income	74.0%		1.87	2.5%	£121,241,700	4.0	
GAM UK Diversified Acc	74.1%		1.59	2.1%	£274,990,000	1.7	
Jupiter UK Special Situations	74.1%	64.6%	1.76	2.4%	£1,317,641,657	2.7	
Artemis UK Special Situations	74.4%	71.3%	1.56	2.1%	£1,215,669,920	-0.7	
Artemis Capital	74.5%	67.9%	1.63	2.2%	£338,704,111	-0.6	
Schroder UK Opportunities A Acc	75.3%		1.66	2.2%	£878,368,460	-8.6	
Aviva Investors UK Growth SC1 Acc	75.4%		1.00	1.3%	£177,419,100	-1.7	
Threadneedle UK Eq Alpha Inc RN GBP	75.7%	68.6%	1.62	2.1%	£833,538,223	5.6	
Liontrust Special Situations R Inc	76.0%	80.7%	1.86	2.4%	£1,437,130,797	0.9	
IP UK Strategic Income Acc	76.0%	70.4%	1.67	2.2%	£982,105,278	9.9	



Full Analysis

Group/Investment	2014 Average Active Share (ie. amount different to the market)	Average Active Share over 5 years to end June 2013 (as per last SCM report)	KIID Ongoing Charge (Primary Share Class)	Implied Cost of 'active' part of fund	Fund Size	Annual Return in 2014 (UK market was +1.2%)	Cost of under-performance vs an index fund during 2014 (index fund return of +0.89% assumed). Only those with <60% Active Share (academic definition of closet index fund) shown
Newton UK Opportunities GBP Inc	76.5%	66.5%	1.62	2.1%	£380,251,588	9.6	
Investec UK Alpha A Acc Net	76.7%		1.61	2.1%	£164,218,853	5.9	
Schroder Recovery A Inc	77.1%	77.9%	1.51	2.0%	£690,511,619	1.6	
St James's Place UK High Income Inc	77.7%	72.7%	1.86	2.4%	£1,665,826,889	8.9	
Artemis UK Growth R Acc	77.8%	65.3%	1.57	2.0%	£723,583,303	-0.3	
IP High Income Inc	78.2%	71.3%	1.67	2.1%	£12,452,386,162	9.6	
IP Income Inc	78.7%	71.3%	1.66	2.1%	£6,592,272,204	9.0	
Evenlode Income A Inc	79.8%		1.75	2.2%	£234,534,562	7.7	
Kames Ethical Equity B Acc	80.0%		0.80	1.0%	£453,326,369	2.4	
FOUR Active UK Equity C	80.1%	71.8%	1.65	2.1%	£130,756,630	-6.2	
Newton UK Equity GBP Inc	80.2%	59.5%	1.61	2.0%	£1,079,160,307	6.5	
BlackRock UK Focus FF Acc	80.7%		0.77	1.0%	£181,024,819	3.8	
SVM UK Opportunities Retail	81.7%		1.85	2.3%	£110,610,925	-2.6	
Baillie Gifford UK Equity Alpha A Inc	82.3%	65.8%	1.53	1.9%	£132,935,312	-12.5	
Jupiter UK Growth fund	84.9%	74.3%	1.79	2.1%	£1,307,385,740	7.0	
Majedie UK Income A	84.9%		1.54	1.8%	£792,107,080	10.3	
Fidelity UK Growth	84.9%	71.5%	1.71	2.0%	£371,627,478	1.0	
SVM UK Growth Retail	85.3%		1.88	2.2%	£105,451,712	-2.2	
Jupiter Undervalued Assets	86.2%	72.2%	1.77	2.1%	£121,364,947	7.0	
CF Miton UK Multi Cap Inc Ret A Acc	90.0%		1.58	1.8%	£377,384,362	3.4	
L&G UK Special Situations R Distr	90.8%		1.73	1.9%	£185,585,599	-3.1	
CF Miton UK Value Opp A Ret Inc	93.2%		1.69	1.8%	£152,844,047	10.3	
CF Lindsell Train UK Equity Inc	96.3%		0.77	0.8%	£1,256,882,220	7.3	
L&G UK Alpha R Acc	96.3%	96.3%	1.68	1.7%	£205,085,995	-1.8	
SLI UK Opportunities Ret Acc	96.4%		1.60	1.7%	£142,750,262	-2.8	
PFS Chelverton UK Equity Income A Inc	96.6%	98.7%	1.75	1.8%	£347,860,015	0.3	
Unicorn UK Income B Inc	97.4%	99.5%	0.81	0.8%	£576,061,332	-1.6	
	Average 64%	**Average 60%**	**Average 1.54**	**Average 2.5%**	**Total £137,277,727,753**		



Research Methodology

SCM Direct's research interrogated the 'active share' of funds based on the 2009 definition of 'active share' from Yale Professors, Martijn Cremers and Antti Petajisto[10] - ***'active share is defined as the fraction of a portfolio or fund that is invested differently from its benchmark'.***

SCM Direct analysed retail (non-institutional), active (non-index) UK equity funds within the leading Investment Management Association (IMA) equity sectors of UK Equity Income and UK All Companies in which most UK equity funds can be found.

Research Sample Criteria

- Funds that benchmarked themselves against the most widely used UK equities benchmark, the FTSE All-Share Index
- The primary share class according to Morningstar was analysed for each fund
- To represent funds typically sold and bought by retail investors, only those funds managing over £100m of assets were analysed
- All the funds were required to have active share data available via Morningstar and charge a KIID ongoing charge of 0.5% or more to screen out any index or quasi-index funds
- The active share (where available) was calculated at the start, middle and end of 2014 and the average figure taken.

Sample size

UK - 154 retail UK equity funds, managing a combined £137b were analysed.

Research Conducted By SCM Direct.com

SCM Direct.com is an innovative on-line wealth manager, offering investors low cost access to high end investment management. The team are respected for their integrity and thrive on their passion for delivering the best possible investment outcomes for clients. This is achieved through a winning combination of expertise, evidence and ethics, all at 100% transparent fair fees and with 100% transparency of holdings. The founders believe actions speak louder than words and invest significant amounts of their wealth alongside clients, on exactly the same terms and fees.

In January 2012 SCM launched the True and Fair Campaign - **www.trueandfaircampaign.com** - calling for 100% transparency on fees and holdings, believing this would lead to significantly higher levels of consumer protection for UK investors. Having achieved major successes in their fight for total cost transparency via two European Directives, SCM and its campaign is now focusing on transparency of holdings.

Contact details:

Gina Miller – gina@scmprivate.com

Telephone 020 7838 8650

www.scmdirect.com

www.trueandfaircampaign.com

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